



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Bowie Unified School District No. 14

As of June 30, 2004

Debra K. Davenport
Auditor General

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AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

October 22, 2004

Governing Board
Bowie Unified School District No. 14
P.O. Box 157
Bowie, AZ 85605-0157

Members of the Board:

In our January 22, 2004, procedural review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) as of August 28, 2003. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of June 30, 2004. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

We acknowledge the District's diligence in taking action to correct some of the deficiencies cited in our January 2004 report. However, based on the number and nature of the remaining deficiencies noted in our status review, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will comply with the USFR. We have communicated specific details for all deficiencies to management for correction.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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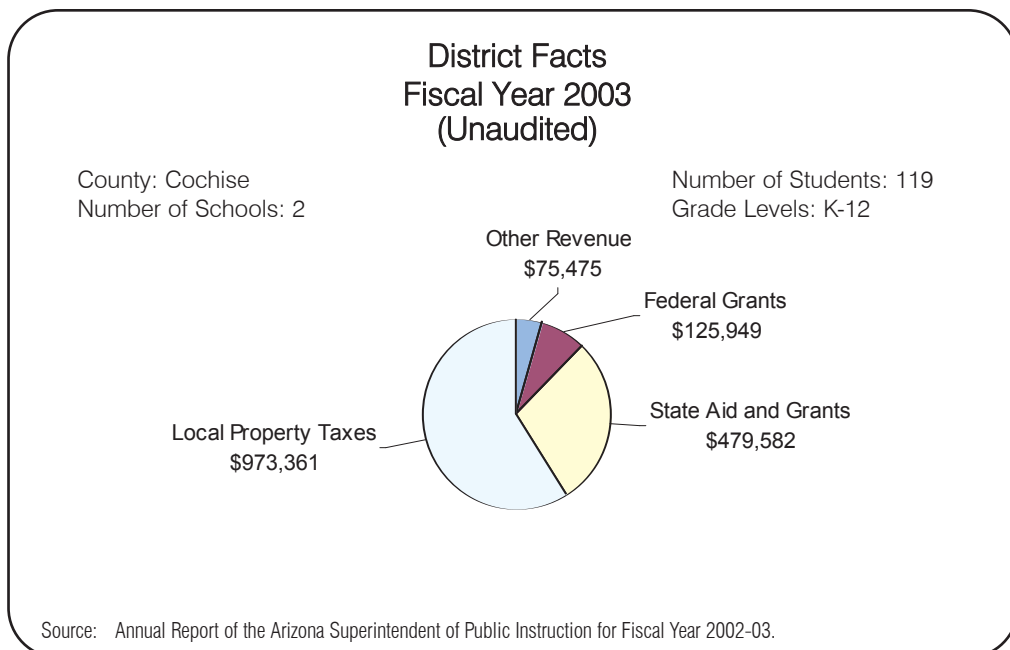
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INTRODUCTION

Bowie Unified School District No. 14 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$1.6 million received in fiscal year 2002-03 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District has not complied with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District should prepare and maintain accurate capital assets and stewardship lists

The District had not protected its investment in capital assets.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have an accurate list of these assets and to ensure they are properly identified and accounted for. However, the District did not have capital assets and stewardship lists and had not performed a complete physical inventory of its equipment in the last 3 years. Consequently, the District could not reconcile items added to the lists during the fiscal year to capital expenditures or reconcile the current year's list to the previous year's list. Also, the District did not always tag or otherwise identify assets as its property.

Recommendations

The following procedures can help the District improve control over its assets and ensure that its capital assets and stewardship lists are accurate and complete:

- Prepare and maintain a capital assets list of items costing \$5,000 or more and with useful lives of 1 year or more.
- Prepare and maintain a stewardship list of equipment costing between \$1,000 and \$5,000, or the District's capitalization threshold approved by the Governing Board if less than \$5,000.
- Retain cost documentation for all items recorded on the capital assets list and verify that each item's cost recorded on the list agrees to supporting documentation. If the District cannot locate documentation to support the actual historical costs of its capital assets, it may use estimated historical costs obtained from historical cost appraisals, bond issue documents, governing board meeting minutes, or vendor catalogs.
- Affix a tag with an identifying number to each equipment item costing \$1,000 or more, or specifically identify the asset on the applicable list by some other means, such as a serial number.
- Update the capital assets and stewardship lists at least annually for items acquired, disposed of, or transferred.
- Perform a physical inventory of all equipment items at least every 3 years. Assign an employee who has no custodial responsibilities to reconcile the physical inventory results to the lists, and add items to or remove items from the lists as necessary.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe information that should appear on the capital assets and stewardship lists.

Instructions for obtaining capital asset cost information are explained on USFR pages VI-E-3 through 5.

Instructions for performing a physical inventory of capital assets are listed on USFR pages VI-E-8 and 9.

- Reconcile items added to the capital assets list during the fiscal year to capital expenditures for that year and the prior year's capital assets list to the current year's list, and make all necessary corrections.
- Determine whether insurance coverage is adequate for capital assets and adjust coverage as needed.

The District should improve controls over student activities and auxiliary operations monies

The District holds student activities monies raised through students' efforts for safekeeping. Auxiliary operations monies are district monies raised in connection with bookstore and athletic activities. The Governing Board is responsible for establishing oversight over these monies to ensure that proper procedures are followed for collecting and spending monies.

However, the Governing Board did not establish proper oversight. Specifically, student activities and auxiliary operations cash receipts were not always deposited intact or in a timely manner. Also, the District had not reconciled the Student Activities or Auxiliary Operations' bank accounts. In addition, the District did not ensure that the Student Activities account only included those monies earned through students' efforts. Further, for student activities, the District did not always include the receipt number or descriptions for each cash collection recorded in its accounting records and did not always record cash receipt transactions in the individual student club records.

The District did not effectively carry out its fiduciary responsibility over student activities or auxiliary operations monies.

In addition, the District did not ensure that proper cash disbursement procedures were followed for student activities disbursements. Student clubs did not always document approval for disbursements in the club's meeting minutes or have purchase requisitions signed by the club officer. Also, the District did not always record disbursements in the individual student club records. Finally, although checks were signed by two authorized signers, one of the check signers was not always the student activities treasurer.

Recommendations

The following procedures can help the District improve controls over collecting and spending student activities and auxiliary operations monies:

USFR §X-G and §X-H provide general policies and procedures for controlling auxiliary operations and student activities monies.

- Deposit only monies raised by students' efforts in the Student Activities Fund bank account.
- Deposit Student Activities and Auxiliary Operations cash receipts intact daily, when significant, or at least weekly.
- Record all financial transactions of student activities clubs in the individual club ledgers in accordance with the USFR, including a description of the transaction and the receipt or check number.
- Ensure that each student club approves its disbursements and documents approval in the applicable student club's meeting minutes. Also, a purchase requisition should be prepared for each disbursement that is signed by a club officer and sponsor. In addition, the student activities treasurer and another authorized signer should sign the student activities checks.
- Check vendors' invoices for Student Activities disbursements for mathematical accuracy, and document the check on the invoice.
- Separate responsibilities for cash handling and recordkeeping for Student Activities and Auxiliary Operations bank accounts to ensure that the same employee is not involved in the entire cash receipts or disbursements processes without proper oversight.
- Prepare monthly written bank reconciliations for Student Activities and Auxiliary Operations Fund bank accounts. The Student Activities Fund reconciliation should also include a reconciliation between the individual club ledgers and the check register. An employee who is not responsible for handling cash or issuing checks should prepare the bank reconciliations in a timely manner. If an employee must perform both functions, district management should review and approve the reconciliations.

The District should strengthen controls over expenditures

The District spends tax dollars to purchase goods and services, so it is essential that the District follow procedures designed to help ensure that its purchases are approved and that its expenditures are supported. However, the District did not accomplish these objectives. For example, the District did not always ensure that sufficient cash was available before authorizing expenditures, resulting in a deficit cash balance in one fund. Also, purchase orders were not signed to indicate approval, receiving reports did not always include the date items were received and

the receiver's signature, and vendor invoices were not checked for mathematical accuracy. Further, the District did not retain all gasoline credit card receipts to support payments to its fuel vendors.

In addition, USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors and help to ensure that the District receives the best possible value for the public monies it spends. However, the District did not follow USFR guidelines, as it did not obtain oral price quotations for purchases that required them.

Recommendations

To strengthen controls over its expenditures, the District should ensure that the following procedures are followed:

- Obtain oral price quotations from at least three vendors for purchases that individually or in the aggregate are estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases that individually or in the aggregate are estimated to cost between \$15,000 and \$32,899. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Verify that sufficient cash capacity is available in cash-controlled funds before approving expenditures.
- Require that an authorized employee approve completed purchase orders before ordering goods or services.
- Have an employee who is not involved in purchasing prepare receiving reports for all items received, indicating the date and quantities received, the items' condition, and signature of the employee receiving the items.
- Retain documentation to support all credit card expenditures. Such documentation should clearly indicate the employee making the purchase and the specific school purpose for the expenditure. Receipts for fuel or vehicle repairs should also include the vehicle license plate number.
- Assign an employee to check vendors' invoices for mathematical accuracy and document the check on the invoice.
- Review account code descriptions in the USFR Chart of Accounts prior to classifying financial transactions and recording them in the accounting records.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$32,899.

USFR pages VI-G-2 through 5 describe expenditure processing procedures.

The District's procedures for processing payroll and maintaining personnel records need improvement

Personnel files lacked required documents.

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid the correct amount and that district records accurately reflect payroll expenditures. However, the District did not achieve this objective. Specifically, the District did not ensure that all employees' time sheets were approved by their supervisors. Also, the District did not maintain all required documents, such as fingerprint certification forms, loyalty oaths, and tax and retirement withholding forms, in employee personnel files. Further, the District's leave policies did not indicate whether employees were paid for unused vacation time upon termination of employment.

Recommendations

To help strengthen controls over payroll expenditures, the District should implement the following procedures:

- Maintain current and complete personnel files.
- Establish policies governing leave time, including prescribed accrual rates for specified years of service, maximum amounts allowed to be accrued, and whether unused time is paid upon termination of employment.
- Require that employee time sheets for each pay period be approved by the employee's supervisor.

The District should comply with rules for reporting student attendance

The State of Arizona provides funding to school districts based on average daily membership and attendance. In turn, the State requires school districts to accurately document entry and withdrawal dates, attendance, and absences. Accurate reporting is essential to ensure that the District receives its fair share of state aid. However, the District's membership and absence records did not agree to the membership and absences reported to ADE and, as a result, the District may not

The District's personnel files should include the documents listed on USFR pages VI-H-2 through 4.

have received the correct amount of state funding. Specifically, the District's computerized attendance data did not agree with its computer-generated, 100th-day summary information, which did not agree with ADE's ADMS 45-1 report.

Recommendations

To help ensure that the District receives the correct amount of state funding, the District should record and report attendance in accordance with ADM *Instructions for Required Reports*, and retain documentation to support attendance reported including attendance registers and membership and absences reports. Also, the District should assign an employee to verify that membership and absences are reported to ADE at least every 20 days, agree to the District's attendance records, and are calculated accurately.

The District should strengthen controls over the Maintenance and Operation Fund revolving bank account

The Maintenance and Operation (M&O) Fund revolving bank account is used to pay for minor purchases that serve an educational or public purpose and should be maintained on an imprest basis. An imprest basis means the check register balance plus invoices for checks issued from the account and bank charges should equal the authorized amount at all times. However, the District did not follow these guidelines, as the revolving account balance was \$454 less than the imprest amount of \$1,500, and there were no outstanding invoices for items paid from the account.

Recommendations

To properly control the M&O Fund revolving bank account, the District should operate the account on an imprest basis. To replenish the account, the District should submit a voucher to the County School Superintendent equal to the amount of checks paid from the account plus bank charges. The employee who reconciles the account each month should verify that the combined check register balance plus invoices for checks issued from the account and bank charges equals the authorized amount. Any differences should be investigated and resolved.

The District must document its allocation of Classroom Site Fund monies

The District's accounting procedures for the Classroom Site Fund did not ensure proper allocation of Classroom Site Fund monies.

The Classroom Site Fund (CSF) was established in fiscal year 2002 to account for the portion of state sales tax collections provided to school districts as an additional source of funding for teacher salary increases and other specified maintenance and operation purposes. Districts must correctly allocate, separately account for, and spend CSF distributions in three separate special revenue funds in accordance with Arizona Revised Statutes. However, in prior years, the District did not allocate CSF monies correctly among the three special revenue funds. For one of the funds, the District was not able to provide documentation for corrections made for prior-year allocation errors. Also, corresponding corrections were not made to the other two funds even though prior-year records indicated improper allocations among the funds.

Recommendation

The District must monitor and ensure that CSF monies are allocated correctly and used in accordance with A.R.S. §15-977. Specifically, the District should prepare and retain documentation to support that CSF monies are allocated to the required CSF special revenue funds as specified in A.R.S. §15-977. Further, the unexpended cash and budget balances must be carried forward each year to each respective CSF special revenue fund.

USFR Memorandum
No. 194 provides
guidance for Classroom
Site Fund monies.